As its evidence of Sec. 271 checklist compliance, Ameritech Michigan points to literally reams of paper that are interconnection and resale agreements aimed at opening up aspects of the local bottleneck. The ink is barely dry on many of those agreements; questions have now been raised as to whether some submitted are the accurate documents; and questions have been raised about the accuracy of Ameritech Michigan's characterization of other agreements. Ameritech Michigan contends that Sec. 271 (c) (1)(2) (b) is satisfied by the existence of agreements if they cover the items on the competitive checklist. A LEC is not in compliance with the Sec.271 checklist requirement unless it is also *providing* access and interconnection. The interconnection and resale agreements call for more than the existence of a competitor; Ameritech Michigan must perform in accordance with those agreements so that there is substantial performance with its mandate to provide access and interconnection, as required by Sec. 271 (c)(1)(a).

By way of analogy, consider the sale of a restaurant which includes provisions requiring the seller to remove its equipment, paint the walls after settlement, and remove heavy machinery that is blocking all of the entries. At the time of settlement, all of the documents may well be assembled, executed, and even ownership transferred. That does not mean there has been substantial compliance with the agreement. It is standard business practice to require that the seller demonstrate compliance with the other agreement items including those necessary so that the buyer can use the property for its intended purpose. When some terms cannot be performed by the time of closing, a reasonable amount of the sales proceeds is typically withheld to serve as an incentive and reward for full compliance. Sound business practice and common sense compel that practice.

In the case of Ameritech Michigan, the written interconnection and resale agreements are not enough to demonstrate compliance. Ameritech Michigan must perform according to their terms. The reward (entry into long distance) cannot be given until there is substantial compliance with the agreements, and until it is shown that Ameritech Michigan is not responsible for any items that are keeping competitors from their intended local telephone business.

To justify withholding long distance entry authority until there is substantial performance, one does not have to rely only upon analogous legal principles, common sense or customary business practice. The legislative history itself is clear.

> For purposes of new section 271 (C)(1)(A), the BOC must have entered into one or more binding agreements under which it is *providing* access and interconnection to one or more competitors *providing* telephone exchange service to residential and business subscribers. The requirement that the BOC 'is *providing* access and interconnection' means that the competitor has implemented the agreement and that competitor is operational. *This requirement is important* because it will assist the appropriate State commission in providing its consultation under new section 271 (d)(2)(B) that the requesting BOC has fully implemented the interconnection agreements set out in the 'checklist' under new section 271 (c)(2). House Conference Report No. 104-458, at 148. [emphasis supplied.]

II. **The importance of sequencing.** There is a critical link between Sec. 251 and Sec. 271 of the federal act.[8]

A. **Sequencing is necessary in order to ensure that entry into long distance is both an incentive and reward for local exchange companies to break up the local bottleneck as intended by Congress.**

Superior power of the LECs Residential consumers welcome ever more vigorous and effective competition in the long distance market, and even more so, competition in the local market. But it is clear that entry into long distance is statutorily intended as both an incentive and reward to be granted to incumbent local exchange companies (LECs) only *after* it is made clear that they have first released their bottleneck hold on the local market; otherwise consumers are left with neither competitive market forces *nor* adequate government regulations to protect them against abusive monopoly behavior. The sequencing of entry into long distance only after there is a competitive local market reflects legislative recognition of the superior power that the entrenched monopoly local telephone companies enjoy by virtue of their ownership and operation of the public switched network---a network upon which consumers and competitors alike have had to rely.

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[8] Ameritech Michigan discussed and urged a parallel linkage treatment in U-10647, at p. 5., with respect to competitor Brooks Fiber's (formerly City Signal) interconnection proposal. Ameritech Michigan argued against "premature granting of authority" until such linkage had been established. Unlike the federal act, the MTA statute under which Ameritech Michigan made the linkage argument, was directed at opening up the local market and not creating some *quid pro quod* for potential local service provider competitors.

Start-up logistics take at least some time. Even Ameritech Michigan did not start up its information services offerings immediately upon authorization. Principles of economics make clear that it will be demonstrably easier and faster for the LECs to make inroads into the long distance market than for the long distance players to make inroads into the local market. That is why the LECs must first demonstrate that the local market is competitive. Even assuming exemplary behavior and good faith motives by all players, it simply takes a certain amount of *time* beyond certification, before competitors can make local service available in any competitive sense.

Consider that even when the information services restriction in the Modified Final Judgment (MFJ) was lifted, Ameritech did not offer its first information services immediately, let alone become a viable competitor overnight. The Congressionally mandated sequencing of *first* the existence--not just the potential--of a competitive local market, and *then* LEC entry into long distance, is at the heart of the FCC Sec. 271 authorization process. Thus, in the absence of a showing that the local market in Michigan is now competitive---the local bottleneck broken---it is premature to bestow that long distance entry reward on Ameritech Michigan.

As discussed in detail below, it is unmistakably clear that the market for local service in Michigan is not yet competitive, especially for residential consumers.

B. Sequencing is necessary to ensure that the interest of local customers is not sacrificed for the interest of long distance customers.

The sequencing, or linkage between Sec. 251 and Sec. 271 considerations, has an additional important role. If long distance authority is granted before the bottleneck is broken under Sec. 251, whatever gains long distance consumers might achieve from Sec. 271 entry, will unjustly be at the expense of local service customers. There is no generic "consumer" for purposes of regulatory review under Sections 251 and 271. Simplistically put, the ultimate beneficiaries of a sound implementation of Sec. 251 are local telephone consumers, just as the ultimate beneficiaries of sound Sec. 271 implementation are long distance consumers. Recognizing that many consumers assume both the role of local and long distance customer, nonetheless public policy principles demand that this vital distinction be drawn. The inherent linkage between a successful showing of compliance with Sec. 251 before Sec. 271 authority is granted, addresses that need.

Local residential telephone service is widely deemed a basic necessity; long distance service is not. The purpose of the societal goal of a 100% local subscription penetration level is to try and assure that households will have the practical ability to interact with their community, participate more fully in the local economy, and increase the likelihood of stability in a host of vital family, social and commercial relationships. Not only is local service a necessity as compared to long distance, the bulk of the monthly telephone bill for most households is for calls made within their state. Local consumers need elimination of the local bottleneck far more than long distance consumers need one more player in the long distance market.

Residential services are the most inelastic and least likely to experience competitive pressures now or in the near future. Nothing in the federal act even hints that the *potential* benefit to long distance customers of having an additional source of service should be at the expense of local telephone consumers. Yet that is precisely the effect if Ameritech Michigan's Application is granted at this time. If Sec. 251 requirements have not been met, local service customers will continue to pay excessive local rates in the absence of effective competition. For most households those excesses in local telephone rates will more than offset any decreased long distance rates.

Similarly, nothing in the MTA suggests that its goals of benefitting Michigan's local service customers should eventually give way to superior rights of long distance customers. Yet that would be the effect if Sec. 271 authorization is given under the guise of providing Michigan long distance consumers more competition in the long distance market, even as the local bottleneck continues.

The sequencing of linking Sec. 271 approval to the Sec. 251 removal of the local bottleneck accommodates the important distinction between the local and long distance customers. It acts as an inherent brake on premature long distance entry that would ultimately harm the local telephone consumer if the bottleneck remains. It must be emphasized, however, that Ameritech Michigan entry into long distance now would decidedly not be in the best interest of long distance customers.

Until the local bottleneck is broken, the risk of harm to long distance customers is far greater than any potential benefit. Ameritech Michigan's performance under the MTA more than belies any notion that their entry into long distance would have any sustaining positive affect on that market. In fact their premature entry would undoubtedly drive smaller long distance players out of the market, prevent new players from entering the market, and thus acting as a catalyst for cartel behavior in the long distance market.

III. Competitive Indicators for Review of Market Conditions: In a competitive market customers have meaningful choices of providers, lower prices, innovation and new service offerings as well as improved service quality. General market conditions in Michigan demonstrate that five years after implementation of the MTA, there is neither an existent nor imminent competitive local market for residential consumers.

Ameritech Michigan looks favorably upon the Michigan Telecommunications Act as a "monumental leap forward in the transition to a competitive environment in telecommunications"..., and its recent amendments as "out in front, in many respects, of the Federal Telecommunications Act of 1996."[9] In advancing its contention that consumers will benefit from increased competition in the long distance market, Ameritech Michigan cites common sense characteristics one could expect in a competitive market: lower rates, greater service choices, better quality service.[10]

The Michigan Telecommunications Act Experiment The MTA has created a learning laboratory for promoting local competition. It has been six years since passage of the MTA and five years since its implementation. That experience is particularly useful in evaluating to what extent the legislature's goal of breaking up the local bottleneck has been achieved so as to accelerate competition. A review of the current Michigan market is an extremely useful framework for undertaking the Sec. 271 review by determining to what extent the local bottleneck still exists.

Supreme Court Standard Favored by Ameritech Michigan In its recent Application to the FCC for in-region interLATA authority,

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[9] Ameritech Submission at 2.

[10] In its Submission (at p 10) Ameritech Michigan describes new services as the prime consumer benefit of competition that should be part of the regulatory evaluation. It further quotes favorably the FCC First Report and Order wherein at par. 4, it states that "the benefits of competition should be new packages of services, lower prices and increased innovation to American consumers". See also Ameritech Michigan's Brief in Support of Application by Ameritech Michigan for Provision of In-Region, InterLATA services in Michigan, at pp. 4-5 (January 2, 1997), (hereinafter "Ameritech Brief").

Ameritech Michigan quotes favorably[11] a Supreme Court observation that, "unrestrained interaction of competitive forces [will] yield the best allocation of our economic resources, the lowest prices, the highest quality and the greatest material progress." Applying those eminently sensible indicators of competition, it is clear that in the Michigan market residential consumers of Ameritech's local telephone service have not seen lower prices, have not seen innovation or new services that are the result of procompetitive legislation, and certainly have not seen improved service. Quite the opposite. Basic rates are at exorbitant levels, and with another rate hike request just filed. Service is declining precipitously and Ameritech now is disinvesting in the very network that is to be the backbone of the emerging competitive age.

A. **Choice of Providers: In a competitive market customers have meaningful choices of providers: data submitted by Ameritech Michigan rebuts its contention that "local competition exists in Michigan". Less than one half of one percent of residential customers are served by competitive local providers.**[12]

Michigan households would be startled to learn that "..local competition exists in Michigan today." Yet this is the contention of Ameritech Michigan, (Ameritech Submission of Nov 12, p. 2) when in fact, less than one tenth of one percent of

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[11] Ameritech Brief at 51-52. (citation omitted)

[12] See, Ameritech Submission Response to Attachment A at p. 16 (November 12, 1996).

Michigan customers are served by competing local telephone service providers. Even those residential customers are largely ratepayers who live in high rise buildings adjacent to office buildings served by the competitors. Competition has not begun in the cul de sacs let alone the country corners of Michigan.[13] By *any* measure the current level of penetration is minuscule, and as a practical matter competition for residential customers is non-existent.[14]

In a competitive market consumers have a meaningful choice of providers. It is important to note that the mere existence of an alternative to an incumbent provider does not establish a competitive market if, for example, the consumer is unaware of the alternative provider's existence[15] or if the competitors provide no meaningful alternative but merely assist in the creation of a cartel.

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[13] Using Ameritech Michigan's suggestion that the current total of 4/10 of 1% share (i.e business plus residential customers served by a competitor) constitutes "competition", one would have to conclude that when the first twelve Fords, Chevrolets and Chryslers were sold in Tokyo, the Japanese auto market became "competitive".

[14] As part of its November 12, 1996 Submission, Ameritech Michigan included as Exhibit 6.21 to Question 6, an April 29, 1995 edition of "Dataquest" wherein on pp. 4-5, the market analysis describes the reasons competitive access providers (CAPs), for example, have not and are unlikely to enter the residential market for at least the short term.

[15] Ameritech Michigan having filed a Sec. 271(c)(1)(A) Application is not claiming that there has been a failure to request access.

Provider choice as a marketplace indicator embraces at least some meaningful element of provider *differentiation*, based upon factors such as differing prices, contract terms and conditions, service quality, and service options. With less than one half of one percent of Michigan's residential customers served by an alternative local telephone service provider, competition is lacking. Ameritech Michigan's continued defiance of MPSC Orders to open up the local market, provides at least part of the explanation for this competitive vacuum. At least three additional indicators further confirm that competitive vacuum.

B. <u>Prices</u>: In a competitive market customers would see rates fall. Because providing local telephone service is a declining cost industry, basic rates should decline even without competition. Yet in the Michigan market Ameritech Michigan's rates for local regulated services that are historically monopolistic have increased substantially, and other rate data shows the absence of a competitive market in Michigan.

1. Basic Rates

a. Ameritech's basic local rates in Michigan have gone up.[16]

In its report to the legislature, the MPSC summarizes that

> From the information available to the Commission, several trends in the pricing of local exchange services have been observed. First, most of the pricing changes have been in the non-regulated sector of the local exchange market. Second, those services historically deemed monopolistic have experienced substantial price increases. For example, operator assisted call surcharges increased 76% to 170%. Third, non-recurring service order charges have decreased.

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16 "Final 1994 Report to the Governor and Legislature as Required by 1991 Public Act 179." at 11 and Table 3. (hereinafter referred to as the "MPSC Report to the Legislature.")

In many cases, these charges relate to initiating a new service or feature which would have a functionality equivalent product available through a non-utility business. An example is utility-offered speed dialing and telephones equipped with automatic dialers. Finally, the addition of a message charge to the monopolistically provided residential basic local exchange service has increased the cost of that service to many Michigan Bell customers. Michigan Bell is the only company that has chosen to offer mandatory measured local service.

b. There has been a staggering impact from changes in public pay phone rates.

Various other local rates that have been raised include public pay phones rates increased from 25 cents to 35 cents per call. There have been even more costly consequences of the simultaneous elimination of the 20-mile radius formerly applicable to public pay phone calls. As a result of that elimination, customers at pay phones within their community of interest must pay a <u>minimum</u> toll/long distance rate of $1.70 for many pay phone calls that previously cost 25 cents from a pay phone, and nothing from their home. This rate increase has a predictably devastating effect on family budgets as children who call home from school in adjacent communities, or parents calling home from work or nearby shops must carry enormous amounts of coins just to maintain routine and minimal phone contact within their community of interest when not at home. Other local rates have also increased including custom-calling features and non-recurring charges.

c. Increased rates place additional new burdens on low-income households.

There has been an additional unconscionable burden for low-income consumers as a result of the above-described pay phone rates, as well as closed payment offices, and mandatory Touch Tone for all new customers. Low-income households typically lack banking accounts and are required to pay in cash or money order, and to pay at the very end of the billing cycle because of ever strained cash flow. Ameritech Michigan's closing of all of its payment centers has a predictable adverse impact on their already strained circumstances. Forced to make payments at designated stores, such payments now result in additional processing charges from such stores of $1.70-$2.70 per transaction. And the new requirement that Touch Tone is mandatory for all new installations means that families initiating new service who might have wanted and needed to save that $2.43 monthly charge are precluded from doing so, even though, as discussed later, Ameritech Michigan should not be charging any customers for Touch Tone.

2. Enhanced Services Since passage of MTA, rate decreases for many enhanced services have been part of a special promotion or discount offering. Only with appropriate accounting standards vigorously enforced, could one distinguish those that are initial whiffs of competition from those that are predatory pricing tactics.

One enhanced service with lowered rates is Touch Tone. The rate reduction rather than rate elimination is evidence that competition is lacking. In other jurisdictions the trend has been to eliminate Touch Tone charges completely. Acting as surrogates for competitive forces,[17] regulators in other jurisdictions have recognized that Touch Tone results in a more efficient use of the system:[18] the enhanced Touch Tone speed reduces the time each call requires on the system, thus maximizing the system's capacity; and Touch Tone is easier to install and maintain, etc., than rotary dial. In a truly competitive market, pricing incentives are used to stimulate an efficient use of a system. Yet through its "no charge" policy for rotary dial, even as it imposes a charge for Touch Tone, Ameritech Michigan sends pricing signals at odds with the manner in which a competitive market would respond to such technology.

[17] The principle of regulators serving as surrogates of a competitive market and holding monopolies responsible for exercising prudent market behavior, is a venerable mandate under cost-based regulation. That creature of utility case law largely served the public well when appropriately and consistently exercised. As divestiture approached, "surrogate" and "prudence" were creatively--and with ultimate great success---remolded into the pejorative called "micro management" by utility strategists.

[18] Historically in Michigan and other states during the period decades ago when crank-style wall phones in homes and farms were the norm, the phone company response to the introduction of the rotary dial phone is instructive. The phone company monopoly, acting under prudency requirements, all but gave away the new rotary dial customer premises equipment, utilizing pricing and other methods to encourage its use because of the improved efficiency the rotary dial represented for the network.

As stated previously, local rates should be on a continuous decline *even without competition* since this is a declining cost industry. Thus, to the extent that certain local rate categories may decline, it should not be interpreted as necessarily indicative of "competition", since other forces such as declining costs may be at work.

3. Other Rates as Evidence that a Competitive Michigan Market Does Not Exist.

There is substantial evidence that Ameritech's market view of its own region illustrates its conclusion that Michigan's local service market is neither currently nor imminently competitive.

a. Short-Haul Toll Charges

Ameritech has set its short-haul toll rates at a higher level in Michigan than in any of the other states in its region (e.g. almost four times the level of that in neighboring Illinois). In effect, the respective rates in each state serve as an inverse reflection of how Ameritech views the competitive nature of that state. From the rates Ameritech has selected, it is clear that Ameritech concludes it faces even less competition in Michigan than in any other state of its region.

Ameritech Michigan's promotional description of those changes raises even more serious questions than an earlier Ameritech Michigan customer billing insert which the Commission found last August to be anticompetitive, false and misleading.[19]

b. CCLC

Ameritech's successful proposal to the FCC revised its Carrier Common Line Charge ("CCLC")[20] such that Illinois' CCLC is being lowered because of competitive forces there, while Michigan's CCLC is increased to the highest level in the region. This is another indicator that Ameritech concludes that it is not facing a competitive Michigan market for local service.

4. Unsubstantiated claims that local basic rates are subsidized

Ameritech Michigan defends its failure to lower basic monopoly rates on the grounds that those rates are already priced below cost and in fact are subsidized by other rates (presumably toll, enhanced services or other service classifications). It also contends that the cost of providing local service in the

[19] Case No. U-11038 related to Sprint's successful challenge of an Ameritech Michigan bill insert on slamming as false, misleading and anticompetitive. The problems with Ameritech Michigan bill inserts continues. For example, in its November and December 1996 monthly billing inserts describing new changes in its short-haul toll rates, Ameritech describes a "reduction" in its residential customer evening and nighttime discount, when in fact the discount for residential customers was "reduced" to zero (i.e. eliminated). What was characterized as a rate "simplification" was for the vast majority of customers a skyrocketing increase. Rates described as "just" 15 cents per minute, and a "local calling value" masked the extraordinary rate increase this change represented.

[20] filed at the FCC in April 1996, granted in June, 1996

rural parts of Michigan is significantly higher than in urban areas.

In recent years when LECs' books have been examined, as well as costing methodologies routinely exposed as inappropriate, repeated evidence demonstrates the such subsidization, to the extent it existed, is no longer in place. Yet the myth continues.[21] For example, the Washington Utilities and Transportation Commission was recently presented with such an assertion by USWEST (USWC).[22]

> Contending that the residential rates are heavily subsidized, USWC proposed more than doubling residential rates over 4 years and charging rural ratepayers significantly more than urban ratepayer. In the final year of the USWC proposal, urban ratepayers would pay $21.85 per month for service and rural ratepayers $26.35. The current statewide average rate for the service is $10.50.
>
> USWC's own cost data--which supports the cost study relied on by the Commission--shows that the incremental cost of local service is less than $5 per month. Even if the entire incremental cost of the "loop"--the facilities needed for the connection between the central office and the consumer's telephone which also carry long distance and specialized services, such as voice mail, as well as local service--is

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[21] At the time of divestiture a similar myth was promoted and lingered long after it had been debunked by various witnesses testifying on behalf of local ratepayers. The contention was that prior to divestiture local calls were "subsidized" by long distance calls, and that therefore with divestiture's "elimination of that subsidy", local rates would have to be raised to cover the gap. As time and evidence proved, if anything, the subsidy ran the other way.

[22] Washington Utilities and Transportation Commission v. U S West Communications, Inc. Docket No. UT-950200, Fifteenth Supplemental Order, (April 1996).

See also, "Current Issues in the Pricing of Voice Telephone Services", prepared for the American Association of Retired Persons by David Gabel (1995).

allocated to the local ratepayer the price covers the cost. There simply is no local service subsidy.

USWC's own data show little cost difference between its rural and urban service territories.[23] The Commission directs the Company to eliminate extended area service surcharges and establish a statewide residential rate of $10.50 per month, the average rate in effect today. The $10.50 rate covers the cost of local residential service and provides a substantial contribution to shared and common costs. (at p. 9)

5. Ameritech's Extremely Solid Financial Health

Ameritech Michigan inaccurately suggests it is losing money on its local call rates, even though its costs are declining. Ameritech Michigan imposes monthly charges for unlimited flat service that exceed $40/month, even as it is now seeking a rate decrease for the extended area service (EAS) version of that plan, with an increase for the non-EAS version, as well as an increase in rates for the lowest priced, 50-call option plan.[24] These rates for unlimited flat service are approximately <u>triple</u>

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[23] Studies, including those conducted by expert Richard Gabel have explained that the exaggerated cost of providing rural service results, for example, from a failure to recognize the lower labor costs associated with providing rural service.

[24] Additionally Ameritech Michigan seeks increases, for example, in certain non-recurring charges, line connection charges, etc., and seeks to impose a 1 1/2% late charge. Small business customers already subject to a late payment penalty, complain about the unreasonably short billing cycle which as a practical matter leaves many with only ten days from the time of receipt until the time payment is due. For many small businesses that pay bills monthly, this is an expensive and inconvenient policy that results in late payment penalties that could easily be avoided if Ameritech Michigan even had the same billing cycle that is routine for the billings of other services and merchandise. If a similarly unreasonable payment cycle is imposed on residential customers (a cycle even shorter than for credit card payments), similar expense and burdens can be expected.

what was charged at the time of divestiture, and more than triple what has been found to be reasonable in a state with similar demographics (Washington).

There is a dramatic contrast between what Ameritech Michigan is now telling the MPSC and the rate paying public, and what is found in Ameritech's annual reports and 10 K filings, data that demonstrate just how extraordinarily profitable Ameritech and Ameritech Michigan remain despite significant investments and some losses in entrepreneurial endeavors. Ameritech Michigan's net profit in 1995 was $468,000,000 compared to $326,000,000 in 1992 as the MTA was just beginning to be implemented. Obviously the hope that the legislation's extensive deregulation and it authorization of "keep all" earnings would open the door for greater Ameritech profits, has come true.

Ameritech Michigan's local rates are among the very highest in the country[25] in large part because the MTA allows it to keep all earnings. This deprives consumers of even a small share of the increased earnings that their historic monopoly rates have made possible. Even other states with alternative regulation have typically been lowering basic rates through sharing mechanisms that put at least some downward pressure on rate hikes.

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[25] e.g. according to comparative indicators including the widely accepted measure of revenues per access line

Shareholders certainly have no cause to complain.[26]

According to the most recent annual report to stockholders (March 1996), "1995 profits surged 119% on revenue growth of 6.8%"

> Since our stock began trading in 1983, Ameritech investors have earned a cumulative total return of 965%-more than double the total return of 457% for the S&P 500.[27]
>
> Ameritech has raised its dividends to investors every year we've been in business-12 in a row. Our December 1995 dividend increase of 6% was the largest among our peers since 1991. (at p. 2)
>
> oooooooo
>
> 1995 was our first full year to benefit from regulatory reforms. In 1995, we became the first regional communications company with no regulatory limits on earnings in any jurisdictions, state or federal. Now we can keep all we earn... (at p. 4)
>
> oooooooo
>
> Since 1993[28], our revenue growth rates have doubled to almost 7% from a historical 3%. Revenues grew a record 11% in the fourth quarter of 1995. Ameritech has achieved nine consecutive quarters of double digit profit growth through the end of 1995, up substantially form our historical annual profit growth of 4% to 5%.
>
> We will continue the transformation of our corporate culture into one far better equipped for the challenges of the competitive marketplace. In 1995, we successfully recruited

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[26] See Attachment A, "Ameritech's Net Climbs 38% as Profit Before One-Time Items Increases 10%", Wall Street Journal, January 14, 1997. p. B7.

[27] As recently posted on the Ameritech Web page, for the ten year period 1985-1995, the S&P Cumulative Total Return was 457%; Ameritech's for that same period was 967%! (1995 Fact Book/Investor/Search/Feedback)

[28] The year that dramatic management changes at Ameritech resulted in engineering-focused management being replaced with sales and marketing-focused management. For a discussion of the affect of this management change on declining service quality see discussion below.

outstanding managers from strong marketing companies such as Proctor & Gamble and Kraft... (at p.5)

6. Where has all the rate money gone?

A review of Ameritech annual reports and 10 K filings demonstrates that Ameritech has been investing billions in operations in other countries. In New Zealand (an initial **$2.5 billion** investment in the purchase of New Zealand Telecom which as of 1995 represented a 25% interest); a 1/3 interest in a Hungary telecommunications company, having initially invested $437.5 million in 1993; a $4.4 billion dollar investment in a state-of-the-art two-way, video cable network in Japan.

> Including our pending investment in Belgium, our international interests will *grow* to nearly $4 billion in value in 1996. Today we help our customers communicate in Hungary, New Zealand, Poland and Norway; we'll start to serve customers in Belgium and China in 1996." (1996 Report at 16); [emphasis supplied.]

It does seem that Ameritech's way of looking at the ledger sheet is distorted. Based upon its annual reports to shareholders and 10(K) forms, Ameritech has

- o funneled billions into other countries, an amount that is apparently *more* than the current value of those investments
- o created jobs in dozens of states and other countries even as it has slashed its Michigan work force by 22% since passage of the MTA[29]
- o increased local rates even though those costs continue to plummet and even though its local rates are priced significantly above costs
- o saved millions of dollars by allowing service quality to deteriorate

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[29] 10(K) 1995

o taking advantage of an excessive depreciation rate with the result that its gains from depreciation exceed what it expends on the network in Michigan... for a net disinvestment.

o boasts to shareholders about its record profits and dividends.... *yet* Ameritech says it cannot compete fairly unless it *raises local residential* rates.

7. Adverse impact on Michigan's economic development

If rate-of-return regulation still existed in Michigan, the combination of sharply declining costs and dramatically increasing rates would precipitate rate decreases. Those are monies that overwhelmingly would stay or be put back into the pockets of Michigan consumers, largely to be spent in Michigan. Instead, the monies are flowing out of Michigan customer pockets to be spent not just on providing telephone service in Michigan but to be sent on to corporate headquarters in Illinois for distribution to Ameritech's ever exploding non-regulated operations around the country and around the world. Not only is that money not staying here to be spent in the local economy, but Ameritech Michigan has slashed its Michigan work force by 22% since passage of the MTA[30] having promised to create 150,000 jobs in Michigan within ten years of passage.[31]

[30] According to the 1996 Ameritech Annual Report to Stockholders, even its home grocery shopping services are in San Francisco and Illinois.

[31] See Attachment B, Correspondence of Michigan Bell president and chief executive officer, Kenneth E. Millard.

C. Innovation/New Services: In a competitive market there should be innovation and more choices of services. In the Michigan market, Ameritech Michigan has not been providing residential consumers with innovation or new service choices for <u>their</u> needs. Rather it cites pre-MTA services, services for other customer classes, or its own version of services already offered by other providers.

One monopolist characteristic significantly detrimental to consumers is the sluggish pace at which new products and services are developed because of the monopolist's insulation from competitors nipping at its heels. The record established in conjunction with divestiture abounded with testimony citing examples of services and technologies that were brought to the attention of the old Bell system and ignored by it.

An array of entrepreneurs developed features now taken for granted such as Call Waiting that were delayed from introduction because of such monopolistic foot dragging. Divestiture's infusion of competition into equipment manufacturing, for example, resulted in thousands of new manufacturers and the introduction of new services and features as well as features and services that had long been stifled.

1. MTA's Purpose of Stimulating Innovation Not Achieved

One prime purpose of the MTA was to

> "...Encourage the introduction of new services, the entry of new providers, the development of new technologies...through incentives to providers..." Sec.101.(d).

Laced throughout its Submission, Ameritech Michigan vaunts its array of "new" consumer services as a prime benefit of its competitive opportunities and behavior. In effect the MTA reflects the bargain the Michigan legislature was willing to strike to promote a competitive telecommunications market in the state. The legislation granted Ameritech Michigan extraordinary and lavish regulatory rate relief, including the accelerated procedures it said it needed as an incentive for opening the Michigan local market to competitors and for pursuing innovations and new service options.

Under the MTA, Ameritech Michigan keeps all earnings, its new services are no longer even reviewed by the Commission[32] and the regulatory time required to introduce a new service has been reduced to but one day for regulated services. Yet as concluded in the MPSC Report to the Legislature, "[The MTA] has streamlined the [approval] process, but the Commission <u>is not convinced more new services were introduced</u> than would have been introduced under the previous law."[33] [emphasis supplied]

The state stuck to its part of the bargain. Ameritech Michigan received what it requested from the legislature. However, Ameritech has yet to deliver on *its* part of the bargain

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[32] Under the old Act 305 no new services had been rejected. <u>Ibid.</u>

[33] <u>Final 1994 Report to the Governor and Legislature as Required by 1991 Public Act 179</u>. at p. 6.

with respect to those items in the legislative purpose section, for example, that are related to innovation, new services and investment in the infrastructure.

2. Imitation not innovation Ameritech Michigan's service offerings are essentially neither "new", nor responsive to residential consumers. Rather, in some instances the services are Ameritech Michigan's version of services already offered by other providers; in other instances the new offerings are at best responsive to other customer classes.

In its Submission, and in its most recent annual report to its investors,[34] Ameritech Michigan describes its many new consumer service offerings. Depicted in its annual report are the three prongs of its growth strategy. Strategy One: be the best full-service communications company to their core customers. Strategy Two: introduce new services for customers. Strategy Three: reach further into the global market.

A review of the nature and target market of those services is telling. The services cited in Strategy One as responsive to consumers are: cellular, paging, Caller-ID, the Internet, additional lines (for modems, etc.), manufacture of telephones, high-speed data, and wholesale local services to competitors. Each item has either been offered by Ameritech Michigan for some time and/or is its version of what other providers have offered to consumers. This is hardly "innovation".

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[34] Annual Report to Stockholders filed March 1, 1996